Moerus Worldwide Value Fund

Institutional: MOWIX | Investor: MOWNX

Semi-Annual Shareholder Letter: Six Months Ended June 30, 2024

Dear Fellow Investors:

We hope this Semi-Annual Shareholder Letter finds you and your families well. We are writing to update you on recent developments regarding the Moerus Worldwide Value Fund ("the Fund") over the six months ended June 30, 2024 (as referenced herein, "the First Half" "or "H1"). In this Letter, we will discuss the Fund's performance against what continues to be an interesting market backdrop, key themes and drivers of First Half performance, notable investment activity in the Fund in H1, an update on recent corporate activity and its role in the Fund's portfolio, our outlook looking forward, and more.

We thank you very much for your support, and, as always, we welcome any feedback that you might have.

Fund Performance (as of June 30, 2024)*

			Average Annual Returns		
Fund/Index	**6-Months**	**1-Year**	**3-Year**	**5-Year**	**Since Inception****
Moerus Worldwide Value Fund - Institutional Class	7.90%	20.53%	13.99%	9.57%	8.01%
MSCI AC World Index ex USA Net (USD)***	5.69%	11.62%	0.46%	5.55%	6.69%
MSCI AC World Index Net (USD)****	11.30%	19.37%	5.43%	10.76%	10.88%

** Performance data quoted is historical and is net of fees and expenses.*
***Inception date is May 31, 2016.*
**** The MSCI All Country World Index ex USA Net (USD) is an unmanaged index consisting of 46 country indices comprised of 22 of 23 developed markets (excluding the US) and 24 emerging market country indices. With 2,159 constituents, the Index covers approximately 85% of the global equity opportunity set outside the US. The Index is calculated with dividends reinvested after deduction of withholding tax. The Index is shown solely for comparison purposes and the underlying holdings of the Index may differ significantly from the portfolio. The Index is a trademark of MSCI Inc. and is not available for direct investment.*
***** The MSCI All Country World Index Net (USD) captures large and mid-cap representation across 23 Developed Market and 24 Emerging Market countries. With 2,760 constituents, the index covers approximately 85% of the global investable equity opportunity set. You cannot invest directly in an index.*

Past performance does not guarantee future results. The performance data quoted represents past performance and current returns may be lower or higher. Returns are shown net of fees and expenses and assume reinvestment of dividends and other income. The investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than the original cost. For performance current to the most recent month-end, please call 1-844-MOERUS1.

Investment performance reflects expense limitations in effect. The Adviser has contractually agreed to reduce its fees and/or absorb expenses of the Fund, until at least March 31, 2025, to ensure that total annual fund operating expenses

after fee waiver and/or reimbursement (excluding (i) any front-end or contingent deferred loads; (ii) brokerage fees and commissions; (iii) acquired fund fees and expenses; (iv) fees and expenses associated with investments in other collective investment vehicles or derivative instruments (including for example option and swap fees and expenses); (v) borrowing costs (such as interest and dividend expense on securities sold short); (vi) taxes; and (vii) extraordinary expenses, such as litigation expenses (which may include indemnification of Fund officers and Trustees, contractual indemnification of Fund service providers (other than the Adviser)), will not exceed 1.25% of the Fund's average daily net assets attributable to Institutional Class shares.

The Fund's Institutional Class returned +7.90% during the six months ended June 30, 2024 ("the First Half"). By comparison, the MSCI All-Country World Index ex USA Net ("MSCI ACWI ex USA") returned +5.69%, and the MSCI All-Country World Index Net ("MSCI ACWI") returned +11.30% during the same period[1]. In short, in the First Half of 2024, the Fund generated reasonably strong returns in *absolute* terms and also meaningfully outperformed the MSCI ACWI ex USA on a *relative* basis, albeit while lagging the MSCI ACWI during a period in which U.S.-based, mega-cap Tech stocks dramatically outperformed broader equity markets.

In the pages that follow, we will briefly discuss the general market environment, before delving into the noteworthy factors driving the Fund's performance in the First Half. Prior to that, however, regarding the table and performance referenced above, we (as always) would like to emphasize that the short-term and Index performance data are included simply for informational purposes for our fellow investors. The Fund seeks to invest with a long-term time horizon of five years or more, and it is not managed with any short-term performance objectives or benchmark considerations in mind. The investment objective of the Fund is long-term capital appreciation, and we manage the Fund with the goal of achieving attractive risk-adjusted performance over the long term. Our investment approach is predicated upon taking a long-term view and striving to take advantage of near-term uncertainty by investing in depressed and/or unpopular businesses and assets at attractive prices. Short-term market or index performance, therefore, is never a primary focus for us, except insofar as it may offer us longer-term investment opportunities. With that, we will move on to a look back at the First Half of 2024 in equity markets.

Market Review – First Half 2024

During the First Half of 2024, some of 2023's most notable equity market characteristics continued and were arguably even more pronounced at times in H1. Namely, the U.S. equity market significantly outperformed international markets, Growth stocks meaningfully outperformed Value, and, perhaps most notably, certain mega-cap Technology stocks (predominantly U.S.-based) and leading index constituents continued to soar, leaving much of the broader equity markets far behind. Speaking to the extent of the equity market bifurcation seen in the First Half, a few figures: first, as compared to the *positive* performance of the benchmark MSCI ACWI ex USA in H1 (+5.69%), the *Equal Weighted* version of the same index actually *declined* during the First Half, returning -0.32%. Similarly, the MSCI ACWI (+11.30%) trounced the Equal Weighted version of the MSCI ACWI (+0.88%), which mustered only slightly positive returns in H1, while the S&P 500 (+15.29%) dramatically outperformed its Equal Weighted version (+5.07%). This illustrates that the *benchmark index performance numbers* – which were positive and, in the

[1] Source for Index returns: Bloomberg

case of U.S. indices, particularly strong – fall far short of telling the story for the performance of the "average stock" in the respective indices, which was much more muted (if not negative) in the First Half.

Meanwhile, pulling up those headline index performance numbers (in the case of the MSCI ACWI and S&P 500) were the Magnificent Seven, which returned over +36% on average in H1, led by Nvidia, which surged by nearly 150% for the First Half. This seemed to be fueled by the ongoing exuberance surrounding Artificial Intelligence (AI) – which continued unabated in H1 – as well as by continued confidence for much of the period among many market participants in the disinflation narrative and the view that the Federal Reserve stands ready and willing to ease aggressively, if necessary (likely sooner rather than later). This confidence wavered at times during the First Half, particularly in April after the release of new data on various inflation indicators (higher than expected) temporarily dampened expectations surrounding interest rate cuts (both the imminence of a first cut as well as their aggregate magnitude in 2024). However, the prevailing narrative then shifted once more, as subsequent economic data released later in H1 seemed to restore confidence among many financial market participants in the ability and willingness of the Federal Reserve to begin to cut interest rates later in 2024 (perhaps sometime soon). In this context, capital seemed to flow overwhelmingly into the largest, most popular equities (mostly U.S.-based) at the expense of much of the rest of the equity universe. As many of the most popular stocks surged in this environment, valuation criteria and price-consciousness seemed to take a back seat; for example, Nvidia's market capitalization (currently roughly $2.6 trillion) surpassed that of China's stock market as a whole (as defined by its Hong Kong-listed H-shares) during the First Quarter, and the stock continued its surge thereafter in Q2.

On a *relative* basis during the First Half, U.S. stock indices (S&P 500: +15.29%; NASDAQ Composite: +18.57%) meaningfully outperformed International indices (MSCI ACWI ex USA Index: +5.69%), while Growth stocks significantly outperformed Value (as illustrated by index performance); the MSCI ACWI *Growth* Index returned +16.30% in H1, outperforming the MSCI ACWI *Value* Index (+6.23%) by over 10 percentage points. Small-cap stocks continued to underperform in the First Half, with the MSCI ACWI Small Cap Index returning +2.29% in H1. In summary, as was the case in 2023, the First Half of 2024 was a positive period for most benchmark indices, both in the U.S. and internationally, but this was largely driven by the significant outperformance of a small subset of the market (most notably mega-cap Growth and Technology), whereas the performance of the broader equity markets (including many Value stocks) was much more subdued than the index returns might suggest.

The Fund's First Half 2024 Performance Drivers

Against this backdrop, the Moerus Worldwide Value Fund (Institutional Class; "the Fund") returned +7.90% during the six months ended June 30, 2024[2]. By comparison, the MSCI ACWI ex USA returned +5.69% and the MSCI ACWI returned +11.30% during the same period. Considering the context described above, in another period in which (in general terms) mega-cap Growth stocks outperformed while Value stocks and the broader market in general lagged far behind, the Fund performed well nonetheless,

[2] **Past performance does not guarantee future results. The performance data quoted above represents past performance and current returns may be lower or higher. Returns are shown net of fees and expenses and assume reinvestment of dividends and other income. The investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than the original cost. Investment performance reflects expense limitations in effect. In the absence of such expense limitations, total return would be reduced. For performance current to the most recent month-end, please call 1-844-MOERUS1.**

producing satisfactory *absolute* performance and meaningfully outperforming the MSCI ACWI ex USA, albeit while lagging the MSCI ACWI on a *relative* basis. The five most significant positive contributors to the Fund's performance in the First Half of 2024 (in order of magnitude) were **Grupo Financiero Galicia**, **Türkiye Sigorta**, **Despegar.com**, **Tidewater**, and **Banco Macro**. The five most significant detractors in the First Half were **Companhia Brasileira de Distribuição**, **Douglas Elliman**, **Arcos Dorados**, **Straits Trading**, and **Natura & Co**.

Looking at longer time periods, the Fund has meaningfully outperformed the MSCI ACWI ex USA over one-year, three-year, and five-year periods, and since inception (May 31, 2016).

As for the MSCI ACWI, it is worth noting that while the Fund lagged the MSCI ACWI during the First Half of 2024, this was primarily due to what the Fund does *not* own: namely, U.S. mega-cap Tech companies. As noted above, U.S. benchmark indices significantly outperformed international during the period. Although the MSCI ACWI is a *global* index, it is heavily weighted towards the U.S. (64.7% of the index as of June 30, 2024). By contrast, as discussed in our previous Shareholder Letter, the Fund is more appropriately categorized as an *international* fund, which better reflects the geographic weightings of the Fund since inception; as of June 30, 2024, less than 6% of the Fund's assets were invested in U.S.-based companies. Still, the outperformance of the MSCI ACWI was not due to geography (i.e., its U.S.-centric concentration) in itself – after all, the Fund meaningfully outperformed the *Equal Weighted* version of the MSCI ACWI during the period. Rather, it was due to the continued, dramatic outperformance of mega-cap U.S. Tech (the Magnificent Seven and the like), which make up an outsized component of the index. The same could be said for much of the time since the Fund's inception (2022 being a notable exception). As we have discussed in the past, due to valuations that we believe are (in general) quite stretched, we have avoided the currently popular mega-cap Growth stocks given what we believe are excessive levels of what we call "price risk," given the optimistic expectations that we think are currently being priced in. In other words, we believe that even the greatest *businesses* could potentially be risky *stocks*, if your purchase price is too high. As such, we have eschewed such stocks on valuation grounds. As you know, we will not invest in names we view as risky merely due to benchmark considerations or simply because they are "what's working" at the moment. Our views notwithstanding, that subset of the market continued to surge in the First Half, fueled by the euphoria surrounding the AI arms race that is currently unfolding.

Moving on to what the Fund *does* own, the Fund's positive absolute performance and its outperformance of the MSCI ACWI ex USA during the First Half, despite a general market environment that was arguably a meaningful headwind for price-conscious Value strategies, was driven largely by holdings that are a product of the Fund's unconstrained investment approach, one which offers us a couple of principal benefits. For one, we are not compelled to be invested in any area that we believe is overvalued or unattractive at a given point in time. On the other hand, the Fund's unconstrained approach allows us to opportunistically pursue compelling bargains *wherever* they are and *whenever* they present themselves. This allows us to look in areas where there is generally less competition in finding opportunities – places where many investors are either unwilling or unable to go for one reason or another. This often results in a portfolio of investments that are generally not household names (especially for U.S.-based investors), but which, in our view, offer investors unusually attractive characteristics. Whereas some of the investment universe seems to be priced for perfection, these other areas, in our view, are often priced for worst-case scenarios, with low expectations priced in. Below, we will highlight what we thought were some of the more notable factors driving the Fund's performance in the First Half, including two areas of the equity universe that many investors had fled in recent years (Argentina and Turkey), creating what we believe to quite interesting investment opportunities.

Argentina

The largest positive contribution by *country* to the Fund's First Half performance was made by its collection of Argentina-based investments. Our experience investing in Argentina predates Moerus, going back over two decades to a dramatic economic collapse that included a December 2001 sovereign debt default. Due in large part to decades of irresponsible policies that led to extreme economic volatility, chaos, and dysfunction, Argentina has been a market best avoided *most of the time*; however, on occasion, it also offers potential for exceptional profits for those who can tolerate short-term volatility. We believe the past year or so has been one of those rare occasions in Argentina, as was that disorderly early-2000s period that offered us very attractive opportunities back then.

This time around, an unraveling Argentine economy saw a massive currency devaluation and soaring inflation that surged past 200% late in 2023. In 2023, we built a position in **Grupo Financiero Galicia** ("GGAL"), a Financial Holding Company that owns one of Argentina's largest banks, at what we view as an unusually discounted price that reflected the extreme pessimism caused by the macro chaos. We believe GGAL is strongly-capitalized and well-positioned in an Argentine banking industry that is relatively concentrated and consolidating further as international players exit the market. In fact, GGAL recently announced the acquisition of HSBC's Argentine banking operations at what we believe is an exceptional price (more on that later). We believe this deal materially increases GGAL's potential earnings power if economic conditions ever improve. Indeed, there have been some encouraging (albeit still very early) signs of improvement of late, including a deceleration in inflation (though it is still quite high) and the recently elected Milei administration achieving fiscal surpluses. Given the rock-bottom expectations that had been baked into its price, GGAL shares surged in H1 amid these positive early indications of progress. As a result, GGAL was the most significant overall contributor to the Fund's performance in the First Half.

The third-largest positive contributor to H1 performance, **Despegar.com**, is also based in Argentina, although it is more accurately described as a pan-regional company. Shares of Despegar.com, the largest Online Travel Agency (OTA) in Latin America, continued their strong performance in the First Half, building upon a strong 2023 amid an accelerating recovery in travel-based activity in Latin America from pandemic-era depths. We detailed the Despegar investment case in our previous November 2023 Shareholder Letter[3], but in short, we believe the company has benefited from both a post-pandemic recovery in demand for its services as well as from cost reductions implemented during and since the pandemic. Furthermore, Despegar's strong balance sheet also enabled the company to consolidate its leadership in and further strengthen its position across Latin America both through acquisition (particularly in Mexico and Brazil) and through industry attrition, as weaker competitors withered during the COVID-induced freefall in travel-related activity. Put it all together, and we believe the much-strengthened position with which Despegar has emerged from the pandemic will serve the company well in the years to come, as they have begun to show in their recent quarterly results, which have included strong growth in bookings, revenue and profitability. Led by GGAL and Despegar, the Fund's Argentina-based investments were a meaningful contributor to performance in the First Half.

Türkiye Sigorta

Türkiye Sigorta was the second-largest contributor overall to performance in the First Half of 2024, picking up where it left off in 2023, where it was also a leading contributor to Fund performance. As in the case of Despegar, we also detailed the Türkiye Sigorta investment case in the November 2023 Shareholder

[3] https://www.sec.gov/Archives/edgar/data/1644419/000158064224000846/moerus_ncsr.htm

Letter, so we won't repeat ourselves here. However, in summary, Türkiye Sigorta is a Turkish non-life insurance company that we believe boasts numerous attractive attributes, including a leading position in an underpenetrated market with ample long-term growth potential. We built the Fund's position in early 2023, after a period of rampant inflation and unorthodox economic policies in Turkey had sparked capital flight out of the country in general, and also weighed heavily on Türkiye Sigorta's profitability, presenting us with what we believed was an attractive opportunity from a longer-term perspective. As in the case of the Fund's recent Argentine investments, the extreme economic adversity in Turkey allowed us an opportunity to invest in what we believe is a high-quality business at an unusually attractive valuation. Since then, Türkiye Sigorta has benefited from a dramatic improvement in profitability due to a combination of increased insurance pricing (to better reflect inflation) and much-improved investment portfolio returns, as the Turkish Central Bank (out of necessity) began raising interest rates significantly in 2023. Driven by a positive inflection in the company's profitability, Türkiye Sigorta's share price has appreciated significantly, providing a meaningful contribution to the performance in 2023 and in H1 2024.

Tidewater

Offshore Energy Services provider **Tidewater** was once again a leading performer, making the fourth-most significant contribution to the Fund's performance in the First Half. Tidewater shares were up another 32% in H1, adding further to what had been a strong 2023 (up 96% last year), driven by continued meaningful improvements in business activity levels, revenue, profitability and cash flow generation. You are likely familiar with the Tidewater story, as we have written about Tidewater at length in a number of Shareholder Letters over the years of the Fund's ownership. Late in the First Half, we eliminated the Fund's position in Tidewater, following years of strong performance that has (to date) made it the largest positive contributor to the Fund's performance since inception. We will return to Tidewater later in our discussion of notable investment activity in the Fund during the First Half.

Detractors

Moving on to detractors from performance in the First Half, there were two areas of the Fund's portfolio that particularly lagged during the period. First, by *country*, the largest detractor from Fund performance in H1 was Brazil, with grocery retailer **Companhia Brasileira de Distribuição** ("CBD") and beauty products retailer **Natura & Co.** declining during the First Half. We believe both holdings have been adversely impacted thus far in 2024 by generally negative investor sentiment towards both the Brazilian equity market, which has been one of 2024's worst performing markets thus far (the Bovespa index declined roughly 19% in USD terms in H1), and its local currency (the Brazilian Real weakened by roughly 13% against the USD in H1). In addition to CBD and Natura, this backdrop likely weighed on the share price of **Arcos Dorados** as well (Brazil is by far its largest market) in H1. CBD, Natura, and Arcos Dorados made up three of the Fund's five top performance detractors in the First Half.

The currently negative investor sentiment towards Brazil seems to be stemming, in part, from concerns regarding political intervention and increased government spending under President Luiz Inácio Lula da Silva's administration, and the potential implications for the Brazilian economy and fiscal situation. As described above in the cases of Argentina and Turkey (admittedly much more extreme examples), volatility in investor sentiment can often be a source of bottom-up investment opportunities for the long-term investor. From our perspective, much more important than short-term swings in top-down investor sentiment are the longer-term, company-specific developments for each of the Fund's holdings, which we continue to find encouraging. Arcos Dorados (the pan-Latin American McDonald's franchisee) continues to produce business results that we find impressive – most recently its Q1 2024 results that included

customer volume growth and market share gains across its markets and revenue growth of 9% year-over-year *in USD terms* (i.e., despite the headwinds of a depreciating Brazilian Real). CBD has taken a number of actions that we believe are commendable, including a series of non-core asset sales that materially strengthens its financial position, allows for greater focus on the core business, and are, in our view, likely to be accretive to shareholder value longer-term. Natura, following its 2023 sales of Aesop and The Body Shop, has been focusing on its core Natura brand, whose recent results are showing signs of improvement, in our view, as the company continues its turnaround plan. In short, we believe the long-term investment cases of each of these holdings remain unchanged (other than a more attractive valuation following recent share price declines).

The other noteworthy area that detracted from the Fund's performance in the First Half was its collection of Real Estate-related holdings, an area that continues to be pressured by the higher interest rate environment, which has weighed on asset values and investor sentiment towards the space in general. This group included the second and fourth-largest overall performance detractors, respectively, in H1: **Douglas Elliman**, a U.S.-based residential real estate brokerage firm, and **Straits Trading Co.**, a Singapore-based Holding Company that owns various interests in real estate, property development, and management (among other assets). As a group, we believe the Fund's Real Estate-related holdings are well-financed and currently trade at what we believe to be unusually attractive valuations. As for the sector in general, while risks are likely growing in certain areas, given the higher interest rate environment (e.g., commercial real estate with imminent refinancing requirements), we believe the sector-wide volatility and fallout could potentially provide attractive longer-term investment opportunities, particularly if and as babies are thrown out with the bathwater. One of these opportunities, in our view, is the aforementioned Douglas Elliman, a new addition to the Fund in H1, which we will discuss below.

Notable Investment Activity in the Fund

The First Half of 2024 was another busy period. New positions initiated in the Fund in H1 included **Douglas Elliman Inc.**, **Hong Kong Exchanges and Clearing Limited**, and **MEG Energy Corp.** One of these opportunities was made available, in part, as a result of depressed industry conditions (for residential real estate brokerages), while another resulted from a depressed geographic market (Hong Kong). The third opportunity (MEG Energy) is, in our view, entering a transformational period that we believe the market is underappreciating and undervaluing. We will discuss the investment cases of each below.

Douglas Elliman Inc.

Based in Miami, **Douglas Elliman** is a leading residential real estate brokerage company. The fifth-largest residential broker nationally, Douglas Elliman boasts a market-leading position in a number of interesting high-end residential property markets, including New York City, Miami, the Hamptons, Boston, California, Texas (specifically the Dallas-Fort Worth area), and, to a lesser extent, Colorado. As you might imagine, Douglas Elliman (along with its entire industry) has been buffeted by a variety of factors, the most substantial of which is the recent higher interest rate environment, which has resulted in a significant slowdown in residential transaction volumes. With mortgage rates rising from below 3% to over 7% nationally, homeowners who might otherwise be interested in moving have been forced to consider the financial impact of selling their home and consequently giving up their low-rate mortgage in exchange for a much-higher rate loan to purchase a new home. As a result, there has been a significant decline in the number of existing homes that have been put up for sale, with existing home inventory reaching all-time lows and transactions falling to multi-decade lows. Specifically, in 2023, existing home sales totaled 4.1

million – a level that is the lowest seen since 1995 and also well below the 15-year average of over 5 million homes sold per year. Given the context, it is no surprise that Douglas Elliman's business has been suffering from a cyclical downturn.

Cyclically depressed businesses sometimes provide interesting longer-term investment opportunities for us. While Douglas Elliman certainly may be characterized as such, there are a number of other reasons why we believe it has a compelling investment case. One is the aforementioned leading market share position that Douglas Elliman possesses in some higher-end residential markets. To put some numbers to this, the average sales price of a Douglas Elliman home that was either sold or bought with one of their agents was $1.59 million in 2023 – this is almost 50% higher than its closest competitor, Compass (another high-end brokerage), and a multiple of the broader-scale residential brokerages that are listed in the U.S. Thus, Douglas Elliman boasts a unique position in its markets, in our view.

Yet, Douglas Elliman seems to fall under the radar of many investors. Why? One reason, perhaps, is simply because it is a smaller-capitalization company, which effectively precludes many of the behemoth funds in the industry from being able or willing to take a look (it wouldn't be an investment large enough to "move the needle" for them). Another reason is its unusual shareholder base; Douglas Elliman was spun-out of a tobacco company in late 2021 and a substantial portion of its shareholders are still the tobacco company shareholders. We believe that because of its smaller market cap and quirky shareholder base, Douglas Elliman is not very well-followed or well-covered in the investment community, resulting in what in our view is an investment opportunity hiding in plain sight (but where few are looking).

Further, while the business has been generating losses recently, given the challenging economic headwinds discussed, we believe Douglas Elliman has a strong financial position to weather the storm. Specifically, as of the end of March, the company had a net cash balance sheet of more than $97 million, which is a vestige of the spin-off (Douglas Elliman was spun off with more than $200 million in cash at the time to grow the business). Given the slowdown in their markets, we believe that cash balance provides a nice ballast for the business. Also, from a valuation perspective, that cash balance equated to around $1.07 per share. We were able to build the Fund's position at a level that, in our view, implied that we were not paying much for the core residential brokerage business, despite its leading position in numerous high-end U.S. residential markets. Putting that a different way, if you were to adjust for the excess cash balance at the time of our purchase, Douglas Elliman's real estate business, in our estimation, was valued at the time at less than $20 million. This is for a business that generated about $1 billion (with a "b") in revenue in 2023 and more than $110 million of EBITDA at its peak in 2021.

In summary, while it's certainly a challenging market (and likely to remain challenging), we believe, given its deeply discounted valuation and the strong financial position Douglas Elliman has, that it will not only be able to survive the current downturn, but it might actually be able to benefit from it and take advantage by hiring new agents and taking some market share. As such, this new addition to the Fund in 2024 is perhaps somewhat typical of Moerus' investment philosophy and where we tend to find opportunities; it is a firm in an industry that faces a challenging near-term and perhaps even mid-term outlook, but we believe that it is well-positioned from a balance sheet perspective to survive and thrive longer-term, in our view, and it became available at an unusually attractive valuation.

Hong Kong Exchanges and Clearing Limited

As its name implies, **Hong Kong Exchanges and Clearing Limited** ("HKEX") is a Hong Kong-listed financial services company that owns and operates the Stock Exchange of Hong Kong, the Hong Kong Futures Exchange, and the London Metal Exchange. Additionally, HKEX provides a range of additional

financial services to market participants in the region, including custody, settlement, clearing, market data, and other services. HKEX operates a monopoly in Hong Kong within equities and derivatives trading, as well as clearing and settlement, and it operates from a position of competitive strength on its cross-border Stock Connect programs (allowing foreigners to invest directly into Mainland China and Mainland Chinese to invest in Hong Kong) and the London Metal Exchange (one of the leading industrial metals exchanges globally).

Hong Kong has seen a protracted and significant decline in investor interest over the past several years. A range of developments, including the street protests in 2019, the implementation of the National Security Law in 2020, some of the strictest COVID-19 lockdowns globally, and the continued economic challenges of Mainland China, has cast a pall on investor interest in the region. These headwinds, exacerbated further by some global investment banks having taken to calling China (and, by extension, Hong Kong) "un-investible," have resulted in trading volumes and stock prices declining considerably, with Average Daily Trading Volume dropping by 37% from 2021 levels in Hong Kong. This has resulted in a decline in revenues and profitability for the company's largest division. The decline in revenue has been largely offset by growth in other areas of the business, but the core Cash Equities division continues to experience a very weak operating environment.

This has resulted in an opportunity for us to acquire shares in what we think may be one of the world's best exchange businesses at a very attractive valuation for the Fund. Given the monopoly position it enjoys in Hong Kong and the operational leverage inherent in its business model, HKEX is a very profitable business. Net Income margins have averaged roughly 65% over the last ten years. Additionally, given Hong Kong's position as the key conduit for capital flows between China and the rest of the world and the value this holds for the Chinese government, it is not a stretch to believe that the company has extremely attractive long-term growth characteristics. As China continues to develop its financial markets and Hong Kong continues to be positioned as the key source of international capital for the country, HKEX will likely be at the center of much of that and should benefit substantially. At current prices, HKEX trades at a valuation level not seen in several years, and it currently trades at a discount to other listed exchanges. This is in spite of the fact that HKEX has historically had the strongest profitability margins amongst listed exchanges globally, despite the company sitting on an excess reserve of cash and financial assets equating to around 10% of the company's market capitalization, and despite the fact that earnings are likely depressed as its core business is in the midst of a cyclical downturn.

We believe that HKEX represents a great opportunity for long-term investors to realize significant potential upside from an ultimate recovery in Greater China, if and as trading volumes and prices recover and the operational leverage inherent in the business results in much higher earnings. Should a recovery in the region take longer, HKEX is profitable at today's volumes, pays a current dividend, and should continue to generate growth from increasing capital flows between Hong Kong and China, as well as the continued development of derivatives securities in Hong Kong and China.

MEG Energy Corp.

Based in Calgary, **MEG Energy Corp.** is an energy company focused on thermal oil production in the southern Athabasca oil region of Alberta, Canada. MEG Energy's business model differs from those of most conventional oil companies, which (in very general terms) conduct exploration drilling in search of oil that, if successfully discovered, could then be produced and sold if economically viable. MEG Energy, on the other hand, is not a conventional oil producer, but rather an oil sands producer, which uses steam assisted gravity drainage (SAGD) technology to extract bitumen from oil sands deposits below the surface. The

bitumen is then separated from sand, water, and other impurities and, through a series of processes, converted or upgraded into synthetic crude oil that can then be refined into various petroleum products (gasoline, diesel, jet fuel, etc.).

Without getting too far into the (geological) weeds, the economics of oil sands producers differ from those of conventional oil producers in some interesting ways that we find attractive. For one, oil sands producers generally experience lower exploration risk compared to conventional oil producers. Why? In Alberta, where MEG Energy operates, the vast oil sands deposits are generally already known, well-mapped, and do not require the same level of exploration to locate new deposits. Also, due to their geological characteristics, once the operations are up and running, oil sands producers generally experience lower decline rates than conventional oil producers. The upshot is that compared to conventional production, oil sands production generally requires relatively modest ongoing capital expenditures in order to maintain steady production rates over time (whereas conventional producers typically need to drill on an ongoing basis to maintain production levels). Thus, in part because of the nature of its resource deposits, we believe MEG Energy boasts a number of attractive attributes: they generally do not need to take on risky, expensive exploration drilling to find (or not find) oil; their decline rates are relatively low; ongoing capital requirements to maintain production levels are likely to be relatively modest; and they have a formidably sized oil resource, with a 2P (Proved & Probable) reserve life of roughly 50 years at around current production levels. Taken together, we believe these factors enable MEG Energy to potentially produce prodigious amounts of free cash flow looking forward, as it has recently.

But while those attributes are, in our view, quite attractive on a look-forward basis, the road taken by the company to get to this point has not been smooth. MEG Energy has suffered through challenging times for the better part of the past decade or so in order to get to the position that it is in today; in fact, its share price is still well below where it was ten years ago. Looking back at the difficult decade that MEG Energy shares have had, one of the underlying causes is that, although oil sands operations have relatively modest ongoing capital requirements once they are up and running, they do have quite significant *upfront* capital requirements to get to that point; a typical new oil sands project could easily require over $1 billion in initial capital and a multi-year time period to reach full capacity. As MEG Energy went through this capital-intensive process to get its asset base built up and running, it incurred significant levels of debt on its balance sheet, right around the same time that oil prices collapsed in mid-2014 (and stayed lower for years thereafter). On top of that, over these years, Western Canadian oil producers suffered not just from lower benchmark commodity prices, but also because a lack of sufficient pipeline takeaway capacity (for shipment to the U.S. and elsewhere) resulted in Western Canadian crude trading at wide differentials (discounts) to benchmark prices. In addition, the pandemic led to a collapse in oil prices to further depths in 2020 as the global economy nearly ground to a halt. Needless to say, this combination of factors made it difficult to make money, and MEG Energy suffered for years under the burden of its high debt levels.

Although these issues have weighed upon MEG Energy's share price for years, we believe that progress made in a few areas in recent years places the company in a much-strengthened position looking forward. Oil prices recovered significantly from the pandemic-era lows reached in 2020, and the difficult pipeline capacity situation in Western Canada has improved materially with some additional capacity coming online, most recently with the completion of the Trans Mountain Pipeline expansion project in May 2024. Thus, in addition to generally higher oil prices, the increased egress capacity should result in an improved ability for Western Canadian producers to access the U.S. and other international markets, which we believe is likely to generally have a favorable impact (all else equal) on the differentials between Western Canadian crude and international benchmark prices. With oil prices having recovered to more reasonable

levels, and the heavy upfront capital requirements now long behind it, MEG Energy has been generating significant levels of unencumbered free cash flow in recent years, which the company has been dedicating towards reducing its debt to much more manageable levels. We believe that by the second half of 2024, MEG Energy will reach a tipping point at which its debt has been reduced to sustainable levels, and going forward, the company could then dedicate increasing amounts of its free cash flow towards returns to shareholders via share repurchases, dividends, or some combination of both. After the challenging past ten years for the stock, we believe the market is not adequately taking into account the potential magnitude of MEG Energy's free cash flow generation and capacity for shareholder returns, relative to the discounted valuation at which we built our position in the Fund – making for an attractive investment proposition, in our view.

Notable Selling Activity

On the sell side, two recent exits from the Fund's portfolio were relatively short-lived positions that had been acquired via spin-offs in 2023: **Almacenes Éxito S.A.** ("Éxito," sold in late-2023) and **Nuvama Wealth Management Ltd.** ("Nuvama," sold in 2024). As discussed in our November 2023 Shareholder Letter, the Fund received shares of leading Colombia-based retailer **Éxito** when aforementioned Fund holding **CBD** distributed the majority of its holding in Éxito to shareholders in 2023. Shortly after the spin-off was successfully completed, Éxito was the subject of a cash takeover bid by El Salvador-based supermarket operator Grupo Calleja, priced at a roughly 42% premium to Éxito's previous day closing price. We eliminated the Fund's position in Éxito after its share price surged in reaction to Grupo Calleja's bid. In the second case, India-based **Nuvama** was spun out of existing Fund holding **Edelweiss Financial Services Ltd.** and began trading independently in September 2023. While Nuvama is a fine company, in our view, its attractions have not gone unnoticed by investors; the stock has performed well since it began trading independently, as it garnered a number of "Buy" recommendations from sell-side analysts. Given what we believe is an arguably full valuation, we decided to eliminate the Fund's position in Nuvama in H1 in favor of other investments that we believe are more attractively valued at this point.

Other noteworthy selling activity that took place in the Fund in the First Half included the sale of two long-tenured holdings (**Spectrum Brands** and **Tidewater**) following the strong recent performance of each. We eliminated the Fund's position in U.S.-listed consumer products company **Spectrum Brands** following a few developments that resulted in meaningful appreciation in the stock price. Following the completion of the company's divestiture of its Hardware and Home Improvement (HHI) business to Assa Abloy for $3.8 billion in net proceeds in June 2023, Spectrum Brands took advantage of its significantly improved balance sheet to repurchase a substantial portion of its shares outstanding. In addition to those long-awaited positive developments, Spectrum Brands' most recent quarterly results (released in May 2024) included revenues and profitability that meaningfully exceeded consensus analyst estimates, as well as improving demand trends that led management to raise the company's full-year guidance. This combination of positive developments led to a run up in the stock price and the closing of much of the pre-existing discount to our estimate of Net Asset Value ("NAV") at which Spectrum Brands had previously been trading. Given what we perceived to be the reduced upside potential looking forward, we eliminated the Fund's position in Spectrum Brands in the First Half, believing that the capital would be better allocated to more compelling opportunities at this point in time, such as the additions noted above.

We also eliminated the Fund's position in Offshore Energy Services provider **Tidewater**, which had been a holding in the Fund since 2018. As noted earlier, Tidewater is the largest positive contributor to the Fund's performance since inception to date. Back in 2018, when the Fund's position in Tidewater was established, the Offshore Support Vessel (OSV) market was a space that had been left for dead by investors after a

multi-year depression in activity and a series of restructurings. There had been a significant surge in supply of OSVs owing to newbuilds that were ordered during an era of high oil prices. This ended badly, to put it mildly, as oil prices collapsed in 2014 – reducing *demand* for the services of the OSV industry – around the same time that a lot of the new OSV *supply* entered the market. This was also an era of booming U.S. shale oil supply, and although the full-cycle returns that shale producers from that era generated for investors would ultimately prove to be lackluster, shale production nonetheless took market share away from offshore oil projects that were more upfront capital-intensive and had longer lead times. These factors collectively drove a sharp decline in offshore activity and OSV demand, and OSV day rates collapsed, leading to severe financial distress and waves of restructurings across the OSV industry.

This included Tidewater, which recapitalized its balance sheet via a prepackaged bankruptcy, emerging in mid-2017 with what we believed to be clearly the strongest balance sheet in the entire OSV industry. With Tidewater suddenly boasting the staying power (that most/all of its peers lacked) to navigate through the ongoing industry depression, we believed that the company stood well-positioned to potentially consolidate or acquire heavily discounted vessels from distressed peers and position itself to benefit disproportionately in the event of an eventual recovery in the OSV market. Yet, despite the company occupying what we thought was a position of relative competitive strength, Tidewater shares traded at a discount to reported book value, which in turn, had been written down by nearly 70% from cost as a result of fresh start accounting. While the accounting write-downs understandably reflected extremely depressed industry conditions at the time, we felt they valued Tidewater's ships at a material discount to what they could theoretically sell on the depressed secondary market *even then*, and at a much greater discount to the actual construction cost of the vessels (in some cases, 60-70% or more). At such a beaten-down valuation, we believed the upside potential was considerable in the event Offshore activity and OSV demand eventually were to recover. This seemed reasonably probable to us, given that Offshore production still accounted for 20-25% of global oil production, yet had suffered from significant underinvestment in recent years that we expected would require catch-up spending at some point. Further, we believed that if the OSV industry structure were to become less fragmented due to M&A or distressed players going out of business, the potential for improved pricing and value creation could be meaningful, with benefits potentially accruing disproportionately to Tidewater given its advantageous position. We established a position in the Fund in 2018.

Since then, our investment thesis has ultimately played out in terms of *business*-level developments, although it was a painful experience for the *stock* at times along the way (particularly in the early years). Despite management doing a lot of the right things that, in our view, would likely create shareholder value over the long-term, the stock price declined from the mid-$20s in early-2018 to the mid-teens in late-2019 as the OSV market was slow to recover, before collapsing to a low of below $5 in the early days of the pandemic when activity fell to a near standstill. While the pandemic was obviously unexpected and this period was quite painful, we believed the company's strong balance sheet provided it with survivability even in the most extreme of scenarios, and we continued to build the Fund's position, lowering our cost basis at increasingly attractive prices that had fallen to levels that we believed were nonsensical for a company that had the wherewithal to make it through the storm. In short, the shares were priced as if the business was going away permanently, even as the company's longer-term competitive position was strengthening materially through industry attrition and acquisition.

Tidewater used its strong financial position to make three sizeable acquisitions, one back in 2018 and two more since 2022 (the most recent one completed in July 2023) in which they acquired vessels from financially distressed and/or otherwise motivated sellers, at what we believed to be exceptional prices that

would likely serve the company well as industry conditions continued to recover. In doing so, Tidewater upgraded their fleet, generated cost synergies, and meaningfully improved their competitive position in the OSV industry, helping to drive the stock's strong performance and the company's rapidly improving profitability as offshore investment returns, industry activity levels recover, and day rates inflect upwards. Tidewater's share price rose from a low of less than $5 in 2020 during the early days of the pandemic to the mid-$90s and over $100 late in the First Half. While we continue to like Tidewater's prospects and admire what management has achieved over the past several years, following this increase in its stock price, we believe there are other investment opportunities that are more compelling from a valuation perspective at this point in time. Thus, we eliminated the Fund's position in Tidewater late in H1, redeploying the proceeds into some of those opportunities.

Investment Implications from the Tidewater Case

We believe that the Tidewater case highlights a few characteristics of our investment approach. First, in order to have a truly long-term approach, we need to have conviction in the survivability of the business under potentially adverse scenarios because over a multi-year time horizon, bad things are bound to happen. Nobody could have imagined the extreme scenario that played out in 2020 in the early days of the pandemic, when activity in certain areas of the economy nearly ceased and oil futures briefly traded at a negative price. However, a strong financial position often provides an anchor to windward and the ability to make it through to better times, when the long-term investment thesis could potentially be realized. What's more, while in that sense, financial strength and survivability allow an investor to play *defense* during challenging periods, they also provide the ability to play *offense* as well, both for the *investee company* itself (Tidewater made acquisitions from motivated sellers at bargain prices to upgrade its fleet) and for the *investor*, who can have the conviction to add to the position at lower, increasingly attractive prices.

Second, although we have conviction in all of the investments we make, the *timing* of value realization (if it occurs) is always uncertain. Some investments aren't going to work out as expected, obviously. But even among the investments that ultimately do work out, it is often very difficult-to-impossible to predict *when* they will work out. Moreover, because of our valuation criteria and our search for what we believe are deeply discounted securities, we often find ourselves investing in businesses that are deeply depressed and unpopular at that point in time; if they weren't, the valuation would likely not be attractive enough from our perspective. Those types of conditions rarely improve overnight. They certainly didn't in the case of Tidewater, and that is not unusual for our investment approach. Sometimes it takes years before conditions and/or sentiment improve and sometimes fundamentals can continue to deteriorate before getting better.

As a result, this investment approach requires patience on an individual *holding* level. It is worth noting, though, that on a *portfolio* basis, at any given point in time, some holdings will likely be further along in their process of value realization, while other holdings will have just started down their own journey. Therefore, on a portfolio basis, at one moment in time, some holdings may be nearing their potential "pay-off," others may be much further away, and still others might not work out at all; but overall, if we do our jobs well and identify the right opportunities, we believe that the hits will meaningfully outweigh the misses and produce attractive returns over the long run.

One final note on this: while patience is required for this investment approach, it is important not to have blind or unconditional patience. Rather, that continued patience and conviction must be earned. Putting aside short-term stock price volatility, is the company generally doing the right things that support your original investment thesis and/or are likely to be accretive to shareholder value over the long term? If not,

it may be time to consider moving on. But if the company is doing the right things and/or management is adding to long-term shareholder value, then the investment proposition often becomes more attractive as the gap between price and value widens (all else equal), offering the opportunity to potentially increase the position size at even better prices.

The Latest on Value-Accretive Corporate Activity in the Fund

As was also the case in 2023, the Fund generated satisfactory performance in the First Half of 2024 despite a general market backdrop that was somewhat challenging in *relative* terms for Value-oriented, price-conscious investment strategies. Growth stocks dramatically outperformed Value stocks again in H1, with the MSCI ACWI *Growth* Index (+16.30%) outperforming the MSCI ACWI *Value* Index (+6.23%) by over 10 percentage points, and the broader equity markets (as opposed to the index leaders) lagged far behind, with the Equal Weighted version of the benchmarks posting subdued returns in the case of the MSCI ACWI (+0.88%) and negative returns in the case of the MSCI ACWI ex USA (-0.32%). As described earlier, the Fund's performance in H1, despite this general equity market environment, was partially attributable to our unconstrained investment approach and our ability to invest in what we believe to be the most attractive opportunities, *wherever* they may be.

Another factor that we believe contributed to the Fund's performance in the First Half is a familiar one, which we have written about at length in our last two Shareholder Letters: namely, the potential for individual corporate events and developments to positively affect the Fund's rates of return, over and above overarching market sentiment or the daily economic headlines and datapoints over which investors tend to obsess. We believe that our investment approach, which focuses on finding what we believe to be undervalued, asset-rich companies, tends to result in a portfolio that has ample potential for value-accretive corporate activity, either carried out internally (by the company itself) or externally (e.g., by a bidder). In our view, this provides the portfolio with two sources of potential upside: either through the eventual recognition of the holdings' underlying value in the stock market through the share price; or, failing that, through corporate events (e.g., M&A, asset sales, spin-offs, share repurchases, etc.).

Corporate activity was a significant factor in contributing to the Fund's performance back in 2023. In our May 2023 Shareholder Letter[4], we pointed out that roughly 36% of Fund assets at the time (as of 5/31/23) had either announced or were actively undertaking some sort of significant corporate activity, ranging from M&A to significant returns of capital to shareholders (e.g., share repurchases), spin-offs, sales of assets or a complete division, as well as others. Thereafter, the Second Half of 2023 saw no shortage of corporate event-driven activity and developments surrounding the Fund's investments, and in our November 2023 Shareholder Letter, we detailed various forms of corporate activity that created value for shareholders, including spin-offs, asset sales, opportunistic acquisitions, share repurchases, and takeovers (with specific examples of each involving Fund holdings). And, once again, the First Half of 2024 was yet another active period in terms of corporate activity in the Fund, both in terms of how it contributed to performance, as well as in new developments in 2024 affecting Fund holdings. As such, we thought it appropriate to update you on such events in the portfolio that have occurred since we last wrote.

[4] https://www.sec.gov/Archives/edgar/data/1644419/000158064223004056/moerus-semiannual.htm

Corporate Activity-Related Value Realization in the Fund

Each of the three positions that the Fund eliminated in H1 (Nuvama, Spectrum Brands, and Tidewater) were profitable exits whose returns were attributable in no small part, in our view, to value-accretive corporate activity. As noted earlier, in the First Half, we sold the Fund's position in India-based **Nuvama Wealth Management Ltd.** ("Nuvama"), the wealth management arm that was spun out of Fund holding **Edelweiss Financial Services Ltd.** ("Edelweiss") in 2023, following the meaningful share price appreciation that Nuvama experienced after its separation from Edelweiss. The Fund's position in **Spectrum Brands** was also eliminated in H1 following the stock's strong recent performance, which was driven, in part, by what we believe to be the unusually well-priced sale of its HHI segment to Assa Abloy in 2023 – the proceeds of which were used, in part, to repurchase shares. Lastly, earlier, we highlighted the **Tidewater** case, a large part of which was the company's ability and willingness to make opportunistic acquisitions of troubled or otherwise motivated sellers during a multi-year depression in the OSV industry – putting the company in an enviable position as the ongoing industry recovery unfolds.

Opportunistic Acquisitions

As noted earlier in the performance discussion, in April 2024, Argentine bank **Grupo Financiero Galicia** ("GGAL") announced the pending acquisition of HSBC's Argentine banking operations. With HSBC seemingly a motivated seller seeking an exit from Argentina to focus more on other international markets (particularly in Asia), GGAL was able to strike a deal (pending but yet to be completed) at what we believe to be a deeply discounted price. Specifically, the purchase price of $550 million compares to the 2023 pre-tax profit of $239 million generated by HSBC Argentina, which has more than 100 branches, 3,100 employees, and roughly one million customers[5]. GGAL is paying an estimated 2.3x pre-tax earnings and roughly 0.4x book value – further consolidating the Argentine banking industry and growing the company's footprint in a move that we believe could meaningfully enhance the company's earnings power, particularly in the event that an economic recovery (or even mere normalization) takes hold.

Asset Sales

Thus far in 2024, Australia-based **Cromwell Property Group** ("Cromwell") announced sales of its Polish retail assets as well as its European fund management platform and interests, for proceeds that total roughly AUD 922 million (for perspective, Cromwell's current equity market capitalization is roughly AUD 1.1 billion). We believe these sales simplify Cromwell's business considerably, as the company refocuses on its core markets of Australia and New Zealand looking forward. They also materially strengthen Cromwell's balance sheet, reducing gearing to roughly 25%, which seems likely to position Cromwell well for various potentially value-accretive opportunities, be they opportunistic investments in Cromwell's core markets, potential returns to shareholders (e.g., buybacks at discounts to NAV), etc.

Following its 2023 spin-off of Éxito (which was subsequently the subject of a takeover), Brazil-based grocery retailer **Companhia Brasileira de Distribuição** ("CBD") has (like Cromwell) announced a number of non-core asset sales, including owned real estate and the majority of its gas station business. The company plans to redeploy the proceeds from its non-core asset sales to reinvest in its core business.

Also during the First Half, Canada-based Holding Company **The Westaim Corporation** ("Westaim") continued its sales of shares of Skyward Specialty Insurance Group ("Skyward"), a U.S.-listed specialty insurance company. This has been an ongoing process that began in 2023 with the IPO of Skyward and a

[5] https://www.bloomberg.com/news/articles/2024-04-09/hsbc-to-book-1-billion-pretax-loss-on-sale-of-argentina-unit

series of subsequent sales of Skyward shares – a process that we detailed in our November 2023 Shareholder Letter. In May 2024, Westaim sold another $177 million worth of Skyward shares, reducing its ownership interest in Skyward to 4.8%. The proceeds from the sale of Skyward shares since 2023 have been redeployed, in part, into repurchases of Westaim's own shares, taking advantage of the disparity between Skyward's valuation (currently roughly 2.3x book value) and Westaim's own valuation (which we believe is at a meaningful discount to NAV). We believe such actions are likely to increase Westaim's NAV per share over time.

We initiated a position in Canadian natural resources group **Teck Resources** ("Teck") in 2023, highlighting what, in our opinion, was the company's considerable potential for event-driven value realization in our May 2023 Shareholder Letter. In July 2024, Teck concluded the sale (through a series of transactions) of its metallurgical coal business (Elk Valley Resources) to Glencore (77%), Nippon Steel (20%), and POSCO (2.5%) for total cash proceeds of roughly US$9 billion. The sale having now been completed, Teck intends to use the proceeds to strengthen its balance sheet, return capital to shareholders, and reinvest in its significant copper reserves. With the proceeds from the sale of the steelmaking coal business, Teck's Board recently authorized up to CAD 2.75 billion in share buybacks and a CAD 250 million special dividend, increasing the originally planned capital returns resulting from the sale to CAD 3.5 billion. We continue to believe that, given the size and quality of reserves Teck possesses, particularly in its base metals business (notably copper and zinc), thoughtful corporate activity (including potential M&A, partnerships or asset sales) could potentially surface considerable value for shareholders, although our investment case does not depend on that outcome occurring.

Also in July 2024, another Fund holding, United Kingdom-based Retail REIT **Hammerson**, announced that it has entered into a binding agreement to sell its entire interest (roughly 40%) in its Value Retail (outlet malls) business for an enterprise value of GBP 1.5 billion, generating cash proceeds of roughly GBP 600 million for the trophy asset. We believe this transaction is attractive for a number of reasons. First, considering that Hammerson's Value Retail business is a non-controlling interest (i.e., no control premium) that is held via a complex structure, which includes various minority interests in GP and LP stakes of the respective assets, we believe the announced sale price is attractive, especially relative to what we believe is currently a deeply discounted implied valuation for the rest of Hammerson in its entirety. Furthermore, the transaction (upon completion) would be transformative from a balance sheet perspective, reducing net LTV (Loan-to-Value) to roughly 25%. We believe the much-strengthened financial position would provide Hammerson with the flexibility to pursue a number of attractive possibilities, including reinvesting in their core U.K. markets at potentially higher yields (with a near-term priority on consolidating Hammerson's ownership of some Joint Venture stakes that it controls), in addition to share repurchases. On the latter point, the company intends to repurchase up to GBP 140 million of its shares, or roughly 10% of Hammerson's pre-deal market capitalization. Given what we believe to be Hammerson's currently depressed valuation – at more than a 25% discount to stated NAV, which, in turn, reflects substantial write-downs taken as a result of the current higher interest rate environment – such share buybacks would be an attractive use of capital, in our view.

Share Repurchases at Discounts to NAV

On that topic, numerous Fund holdings have continued repurchasing shares at what we view as attractive valuations thus far in 2024, including **Exor**, **International Petroleum**, **Jefferies**, **Standard Chartered**, **Teck Resources**, **UniCredit**, and **Westaim**. Two recently sold positions (**Spectrum Brands** and **Tidewater**) also repurchased shares in 2024. In some cases, the share repurchases (at discounts to our estimates of NAV) either coincided with or followed the sale of individual assets at much better valuations,

in our view. Examples include: Westaim (share buybacks following the sale of Skyward shares), Spectrum Brands (repurchases following the sale of its HHI segment), and Teck Resources (in connection with the sale of its metallurgical coal business).

Caveats and Conclusions

Indeed, it continues to be an active time for the Fund's holdings in terms of corporate events, and we continue to believe that the portfolio is rich with potential for event-driven value realization looking forward. However, as we have noted before, it is worth emphasizing that the *timing* of any eventual value realization is always uncertain and often unpredictable. Although we have conviction in the underlying value proposition of the Fund's investments, it is quite often unclear to us precisely *when* that value will be either unlocked via corporate activity or eventually more fully appreciated by the securities markets. Still others might not work out as expected at *any* point, due to unforeseen circumstances, analytical error on our part, or simply bad luck. Still, timing uncertainty notwithstanding, we believe that an investment approach focused on finding well-financed, asset-rich businesses whose shares are undervalued – if well-executed – is apt to result in a portfolio that possesses ample potential for event-driven value creation.

Fund Outlook

The near-term future for the economy, inflation, and interest rates remains uncertain and subject to much debate and forecasting – pursuits which we do not believe are particularly productive. A mere glance back at recent history provides enough examples of why we feel that way. The widely presumed recession of 2023 never arrived. Talk of a hard landing morphed into that of a soft landing, then to perhaps no landing at all, as 2023 progressed. Late in 2023 and into 2024, slowing inflation rates led to increased expectations for Federal Reserve interest rate cuts (both in terms of their imminence and ultimate magnitude) to be priced into markets – only for subsequent inflation data to come in hotter than expected, dampening those expectations just a few months later. Since then, the most recent economic datapoints (as perceived by consensus opinion) have once again renewed hopes that rate cuts are coming in 2024, perhaps sooner rather than later. All told, the past 18 months have offered numerous reminders of why we do not risk capital or base investment decisions on near-term macroeconomic forecasts.

With that in mind, as we look forward, various plausible scenarios could conceivably play out: recession or no recession; hard landing, soft, or none at all; or 1970s-style stagflation, among others. We do not expect the forecasters to be any more accurate over the next 18 months than they were over the previous 18. Because of this, the financial markets' all-consuming obsession with forecasting the path of interest rates – and changing such forecasts upon the release of any economic datapoint – is hardly of any interest to us as long-term investors, except to the extent that the fallout from such fluctuations in near-term expectations provides attractive investment opportunities from a longer-term perspective.

With that said, on the topics of interest rates and inflation, it's important to make a distinction between the short-term and the long-term, which we believe is much more relevant for the Fund. In the *short-term*, we believe the Federal Reserve may very well be inclined to lower interest rates, if/when given sufficient cover from cooling economic data. Nonetheless, over the *longer-term*, we continue to believe it is reasonably likely that future inflation, while subject to cyclical volatility (both up and down), might generally and on average remain higher than it had been for much of post-Global Financial Crisis (GFC) era. In these pages, we have often detailed the numerous reasons why we hold this view, including years of underinvestment in Natural Resources needed to support long-term economic growth (including demand for power-intensive

AI), years of unorthodox *monetary* policy, and massive *fiscal* stimulus (heavy deficit spending). Fiscal profligacy seems likely to continue, given recent legislation and defense spending, and neither political party seems particularly interested in belt-tightening. Wars in Ukraine and the Middle East continue, as does the potential for an even larger regional/global conflict, with significant potential risks to the supply of oil & gas, agriculture, and other commodities that the financial markets may be underestimating. Geopolitical rivalry has intensified and government intervention in matters of trade has increased.

In sum, these factors point, in our view, towards an increased probability of a future in which inflation may remain higher than it had been in the recent past, in general and on average over the long-term (cyclical fluctuations in both directions notwithstanding). Said another way, the post-GFC era of extraordinarily low interest rates, cheap/free money, and low inflation could prove to be more of a historical anomaly, rather than the norm to which many in the investment community (who have grown up and built their careers during this era) have become accustomed.

We continue to believe that security selection and fundamentals are apt to matter more in determining investment outcomes in such a world, one of heightened geopolitical risk, higher inflation, and the cost of capital increasing from the easy money days of the past 15 years. We believe this bodes well for the Fund longer-term because our investment approach has always remained focused on valuation, fundamentals, and, ideally, the ability to withstand the more adverse of the potential paths the economy might take in order to thrive over the long run. Notwithstanding a resurgence in "story stocks" in 2023 and thus far in 2024, we continue to believe certain stock-specific attributes that we seek, many of which were overlooked in recent years amid a flood of liquidity, are likely to matter much more in determining risk-adjusted returns looking forward.

These attributes include discounted valuations that price in adversity and capitulation rather than perfection; consider, for example, the expectations (or lack thereof) priced into the Fund's holdings noted above in Turkey, Argentina, Hong Kong, or its Real Estate-related holdings, versus those currently priced into Nvidia. For one statistical indicator of the disparity in valuations between the Fund's portfolio and the benchmark indices, as of June 30, 2024, the Price-to-Book Value ratio (P/B) of the Fund was 0.96x, as compared to 3.13x for the MSCI ACWI and 1.87x for the MSCI ACWI ex USA[6]. Another is a business model that is not dependent on easy capital markets, with the financial position strength to survive and even take advantage of challenging times. Armed with the level of comfort that this attribute provides, we have the ability to turn away from the distraction of ever-changing macro forecasts, and instead turn towards potential longer-term opportunities that such volatility can provide. Still another important attribute we seek is ample potential for event-driven value creation via corporate activity that (if done well) isn't necessarily highly correlated with, nor heavily reliant upon, the whims of stock market sentiment or top-down economic factors. Indeed, corporate activity has favorably contributed to the Fund's performance over the past 18 months, despite it generally being a challenging period for many Value strategies *relative* to Growth strategies and benchmark indices. We continue to believe the Fund's portfolio remains rich with possibilities for event-driven value creation.

In conclusion, we continue to believe the Fund is well positioned in a relative sense for a changing world – one in which low-cost capital might be harder to come by (we may not go back to the easy money days of yesteryear). In a world in which broader benchmark indices continue to trade at what we see as rich valuations and are increasingly concentrated in what we view as highly correlated areas (e.g., mega-cap Tech), we continue to believe that the attractive valuations, sound long-term fundamentals, and staying

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[6] Sources: Bloomberg and MSCI Fact Sheets (as of June 30, 2024)

power of many Fund holdings, as well as their potential to unlock value via corporate activity, offer attractive portfolio-level benefits and bode well for the Fund over the long run.

As always, many thanks for your continued support, interest, and curiosity. We look forward to writing you again following the close of the year.

Sincerely,

Amit Wadhwaney, Portfolio Manager

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The MSCI ACWI Growth Index captures large and mid-cap securities exhibiting overall growth style characteristics across 23 Developed Markets countries and 24 Emerging Markets countries. The growth investment style characteristics for index construction are defined using five variables: long-term forward EPS growth rate, short-term forward EPS growth rate, current internal growth rate and long-term historical EPS growth trend, and long-term historical sales per share growth trend.

The MSCI ACWI Value Index captures large and mid-cap securities exhibiting overall value style characteristics across 23 Developed Markets countries and 24 Emerging Markets countries. The value investment style characteristics for index construction are defined using three variables: book value to price, 12-month forward earnings to price, and dividend yield.

You should carefully consider the Moerus Worldwide Value Fund's investment objectives, risks, charges, and expenses carefully before you invest. This and other important information about the Fund are contained in the prospectus, which can be obtained by calling 1-844-MOERUS1 or visiting www.moeruscap.com. The prospectus should be read carefully before investing.

Current and future portfolio holdings are subject to change and risk.

Top ten holdings as of 6/30/24 as a % of the Fund's net assets: International Petroleum Corp (3.84%), Hammerson PLC (3.13%), John Wood Group PLC (3.05%), Türkiye Sigorta AS (3.05%), Jefferies Financial Group Inc. (2.99%), Despegar.com Corp. (2.99%), Wheaton Precious Metals Corp. (2.96%), Teck Resources Ltd (2.95%), Dundee Corp. (2.94%), and Grupo Financiero Galicia SA (2.90%).

The Moerus Worldwide Value Fund is distributed by Foreside Fund Services, LLC, Member FINRA.

Date of first use of this material: August 2024

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